



JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

State of Utah

DEPARTMENT OF NATURAL RESOURCES

MICHAEL R. STYLER
Executive Director

Division of Oil, Gas and Mining

JOHN R. BAZA
Division Director

March 24, 2008

M0370043
80370130

Dick White
Energy Fuels Resources Corporation
P.O. Box 888
Nucla, Colorado 81424

Subject: Inspection-Related Issues, Energy Fuels Resources, Energy Queen Mine and Exploration Project, M0370043, San Juan County, Utah

Dear Mr. White:

On March 13, 2008, Paul Baker of the Division staff inspected the Energy Queen Mine and exploration sites near La Sal. As noted in the enclosed inspection reports, problems were found at each of these sites which has led to issuance of the enclosed notice of violation.

Rule R647-2-108 requires that drill holes be plugged within 30 days of being drilled unless a longer period is authorized by the Division, and both the drill hole designations and your minerals exploration progress report indicate these holes were drilled in 2007, more than 30 days prior to the inspection. While not cited as violations, other problems were also found, such as trash that needs to be cleaned up and drilling fluid that overflowed the mud pits and ran off site. These problems should be taken care of right away, and the sites should be reclaimed, including seeding, as soon as possible to prevent additional violations. If these sites are not seeded very soon, it is likely weeds will become established which will complicate revegetation efforts.

The Division asks that you either resubmit the minerals exploration progress report using the same hole designations as in the Notice of Intention to Conduct Exploration (Notice) or that you amend the Notice with a map using the same designations used in the report. The minerals exploration progress report uses a numbering system designation for the drill holes the same as on the ground, but the Notice uses letters A through T. This makes it impossible for the Division to keep track of which holes have and have not been drilled.

The mine plan needs to be updated to show the location of the new road and the three new water monitoring wells at the Energy Queen Mine. Correspondence from 2005 indicates water monitoring wells were to be drilled as part of the plan, but maps associated with the plan do not show the locations of these wells. It is also not clear whether the recently-drilled wells are the same ones

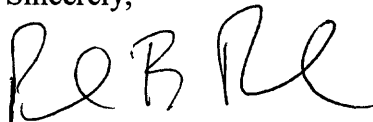


Dick White
Page 2 of 2
March 24, 2008
M0370043 and E9370130

referenced in the 2005 correspondence. The plan needs to be amended to clearly show these locations, and it may be necessary to increase the reclamation surety.

Other issues identified during the inspection are discussed in the enclosed inspection reports. Please contact Paul Baker at 801-538-5261 or me at 801-538-5258 if you have questions about the recommendations and requirements in this letter, the inspection reports, or the notice of violation. Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read 'SMB', is written over the typed name.

for
Susan M. White
Mining Program Coordinator
Minerals Regulatory Program

SMW:PBB:pb
Enclosure: Two inspection reports with photographs
Notice of violation MN2008-03-01
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Page 1 of 3

Notice of Violation No. MN2008-41-01

CERTIFIED RETURN RECEIPT # _____

To the following Permittee or Operator:

Permittee/Operator Name: Energy Fuels Resources

Mine Name: Energy Queen Exploration ☐ Surface ☐ Underground ☒ Other (Exploration Drilling)

County: San Juan State: Utah Telephone Number: 970-864-7775

Business Address: P. O. Box 888, Nucla, Colorado 81424

Permit Number: E0370130

Ownership Category: ☐ State ☐ BLM ☐ USFS ☒ Fee ☐ Other

Date of Inspection: March 13, 2008 Time: 2:00 ☐ a.m. ☒ p.m. to 3:30 ☐ a.m. ☒ p.m.

Under authority of the Utah Mined Land Reclamation Act, Section 40-8-1 et seq., *Utah Code Annotated*, 1953, the undersigned authorized representative of the Division of Oil, Gas, and Mining has conducted an inspection of above mine on above date and has found that a Notice of Violation or Cessation Order must be issued with respect to the conditions, practices, or violations listed. In accordance with Section 40-8-9, *Utah Code Annotated*, you are ordered to cease immediately the operations or activity described and to perform the required actions described within the designated time for abatement.

The undersigned representative finds that this order ☐ does require cessation of all mining;
☒ does not require cessation of all mining.

For this purpose, "mining" means development of, or extraction of a mineral deposit, including transportation within or from the mine site, concentrating, milling, evaporation, or other processing. Mining and/or reclamation operations not directly the subject of this order shall continue while this order is in effect. You are responsible for doing all work in a safe and workmanlike manner.

This order shall remain in effect until it is modified, terminated or vacated by written notice of an authorized representative of the director of the Division of Oil, Gas, and Mining.

Date of service/mailling: 3/24/08 Time of service/mailling 10:00 ☒ a.m. ☐ p.m.

Dick White
Permittee or Operator Representative

Title

Signature

Paul B. Baker
Division of Oil, Gas & Mining Representative

Reclamation Biologist
Title

[Signature]
Signature

SEE NEXT PAGE



IMPORTANT – READ CAREFULLY

1. PENALTIES.

a. **Proposed assessment.** The Division of Oil, Gas, and Mining (DOGM) assesses fines based upon a proposed assessment recommended by an assessment officer. You may submit written information pertaining to violation(s) covered by this order within 15 days of the date this notice or order is served on you or your agent. Information will be used by the assessment officer in determining facts surrounding the violation(s) and amount of penalty. A representative of the DOGM will serve the proposed assessment on you or your agent within 30 days of issuance of notice or order.

b. **Assessment.** The penalty will be final unless you or your agent file a written request within 15 days of receipt of proposed assessment for an informal hearing before the assessment officer.

For each violation included in this notice, a penalty of up to \$5,000 may be assessed for each separate day the violation continues.

If you fail to abate any violation within the time set for abatement or for meeting any interim step, you will be assessed an additional minimum penalty of \$750 for each day of continuing violation beyond the time set for abatement. In addition, if you fail to abate any violation as required you will be issued a Cessation Order requiring you to cease mining operations on the portion of the operations relevant to the violation.

2. STOP WORK CONFERENCE.

A Stop Work Conference may be requested if this notice requires cessation of all mining. On the reverse of this page, the authorized representative has made a finding as to whether or not this notice requires cessation of all mining. (See Utah Admin. R. 647-6-102.4 et seq.)

You must request the Stop Work Conference within 30 days after service of this Cessation Order. The conference must be held within 5 days of your request. You will be notified of the date, time, and location of the conference.

Please send your conference request to:

Administrative Secretary
Associate Director of Mining
1594 West North Temple, Suite 1210
PO Box 145801
Salt Lake City, Utah 84114-5801

3. FORMAL REVIEW AND TEMPORARY RELIEF.

You may apply for review of this notice, order or proposed assessment before the Board of Oil, Gas, and Mining by submitting an application for hearing within 30 days of receipt of notice or assessment by you or your agent. Apply to:

Secretary
Board of Oil, Gas, and Mining
1594 West North Temple, Suite 1210
PO Box 145801
Salt Lake City, Utah 84114-5801

If applying for a formal board hearing, you may submit with your petition for review a request for temporary relief from this notice. Procedures for obtaining a formal board hearing are contained in the board's Rules of Practice and Procedure and in Utah Admin. R. 647-5 et seq.

4. INDIVIDUAL CIVIL PENALTIES.

An additional individual civil penalty of up to \$5000 per day may be assessed against any corporate director, officer, or agent who knowingly and willfully authorized, ordered or carried out a violation or who fails or refuses to comply with an order.

For further information, consult *Utah Code Annotated* Section 40-8-9, 9.1, Utah Admin. R. 647-6, 7, 8 seq. or contact the Division of Oil, Gas, and Mining at (801) 538-5304.

Notice of Violation NO. MN2008-41-01

Violation No. 1 of 1

Page 3 of 3

Nature of condition, practice, or violation:

Failure to properly plug exploration drill holes within 30 days.

Provisions of act, regulations, or permit violated:

R647-2-108

(Check box if appropriate:)

- ☐ Condition, practice, or violation is creating an imminent danger to health or safety of the public.
- ☐ Permittee/Operator is/has been conducting mining activities without a permit.
- ☐ Condition, practice, or violation is causing or can reasonably be expected to cause significant, imminent environmental harm to land, air, or water resources.
- ☐ Permittee or Operator has failed to abate Violation(s) No. _____ included in Notice of Violation No. or Cessation Order No. M _____ within time for abatement originally fixed or subsequently extended.

Mining activity to be ceased immediately:

Affirmative obligation(s) or required action and abatement time (if applicable):

By April 18, 2008, drill holes EQ-07-5, EQ-07 #12, EQ-07-13, and EQ-07-16, as marked in the field, and any other drill holes not plugged must be properly plugged according to the requirements of rule R647-2-108.

jb

cc: DOGM
Operator
File

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JOHN R. BAZA
Division Director

Inspection Report

Supervisor JK

Minerals Regulatory Program

Date of Report: March 19, 2008

Mine Name: Energy Queen (formerly Hecla Shaft)

Operator Name: Energy Fuels Resources

Permit number: M0370043

Inspection Date: March 13, 2008

Time: About 1:30-2:00 PM

Inspector(s): Paul Baker

Other Participants: I introduced myself to a person working at the mine, but no one accompanied me on the inspection.

Mine Status: Inactive

Weather: Partly cloudy, 50s

Elements of Inspection

	Evaluated	Comment	Enforcement
1. Permits, Revisions, Transfer, Bonds	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. Public Safety (shafts, adits, trash, signs, highwalls)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Protection of Drainages / Erosion Control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Deleterious Material	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Roads (maintenance, surfacing, dust control, safety)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
6. Concurrent Reclamation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Backfilling/Grading (trenches, pits, roads, highwalls, shafts, drill holes)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
8. Water Impoundments	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
9. Soils	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Revegetation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Air Quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Other	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Purpose of Inspection:

This was a routine inspection.

Inspection Summary:

1. Permits, Revisions, Transfer, Bonds

On March 4, 2008, the Division gave final approval of the transfer of this mine from Denison Mines (USA) to Energy Fuels Resources. The surety is \$265,200.00. The site was formerly known as the Hecla Shaft but has been renamed the Energy Queen Mine.

5. Roads (maintenance, surfacing, dust control, safety)

A new road has been built to access one of the water monitoring wells (see item 7 below) (Photo 1). This road crosses a drainage, and there is no culvert (Photo 2).

7. Backfilling/Grading (trenches, pits, roads, highwalls, shafts, drill holes)

There is a road to the southwest of the main shaft that leads to the waste rock disposal area. Extending south from this road is a new road (see item 5 above) leading across a drainage to a new water monitoring well (Photo 3). This well was capped and locked. Near the vent hole were two more new water monitoring wells (Photo 4).

8. Water Impoundments

There are three water impoundments and one area near the vent shaft called the collection area that would impound water. The three impoundments are near the main shaft, and one is lined. The lined pond is shown in Photo 5, and one of the unlined ponds is shown in Photo 6. The liner in the lined pond is deteriorating, but there was water in this pond. There is another pond near the vent shaft. The unlined ponds all had woody vegetation.

A hose and an electrical wire were leading out of the vent shaft indicating a submersible pump had been put in the shaft (Photo 7). The hose led to the adjacent impoundment, but there was no indication any water had been pumped from the mine.

12. Other

Near the gate by the lined pond, there is a pile of waste material (Photo 8), and this waste is not included in the disturbed area shown on a map submitted in 2005. It is included in the disturbed areas on earlier maps.

Some of the other facilities, including the main headframe and some fuel tanks, are shown in Photos 9 and 10.

Conclusions and Recommendations:

The new road leading to the water monitoring well should have a culvert where it crosses the drainage.

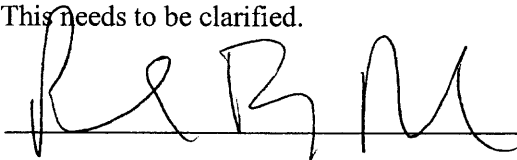
Correspondence from 2005 concerning bonding discusses water monitoring wells and indicates they are included in the bond, but the maps do not show the locations of the new wells. Therefore, it is not clear whether these wells were included with the bond. The mine plan needs to be amended to show these locations, and it may be necessary to increase the bond for reclamation of these wells.

I assume the operator intends to take water samples from the mine using the hose coming from the vent shaft. The hose is not large enough (I believe $\frac{3}{4}$ "") to do any serious dewatering of the mine, but no water should be put in the impoundment or discharged without approval of the Division and the Division of Water Quality.

The map of the disturbed area needs to be updated to include the waste disposal area on the northeast side of the site.

There are references in the mine plan and in an executive summary to vent shafts in addition to the one shown on the mine map. On March 20, 2008, I spoke with Frank Filas from Energy Fuels, and he said there are no additional vent shafts. This needs to be clarified.

Inspector's Signature



Date:

3/20/08

PBB

cc: Frank Filas, Energy Fuels

Attachment: Photos

ATTACHMENT

Photographs

M0370043, Energy Queen Mine, Energy Fuels Resources

Inspection Dated: March 13, 2008; Report Dated: March 19, 2008



Photo 1. Road leading south to the monitoring well shown in Photo 3.



Photo 2. The road in Photo 1 crosses a drainage, but there is no culvert.



Photo 3. New water monitoring well to the south of the mine site.



Photo 4. Two new water monitoring wells near the vent shaft.



Photo 5. The lined pond.



Photo 6. One of the unlined ponds. Note the amount of woody vegetation.

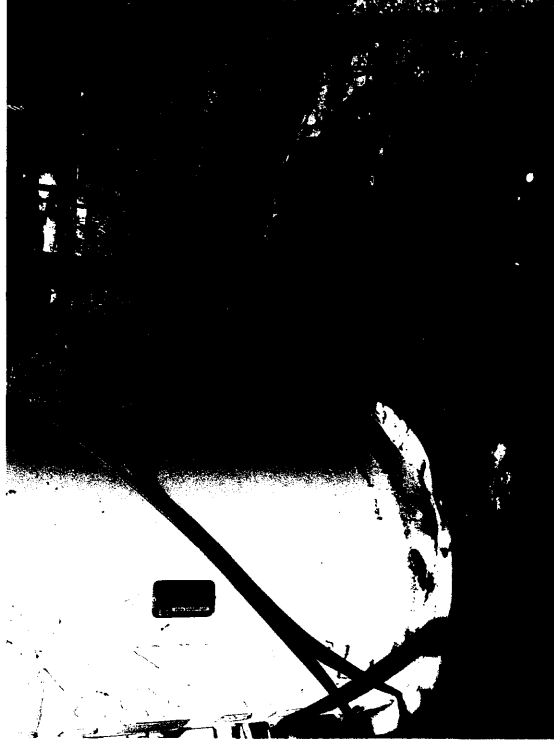


Photo 7. A hose and electrical line coming from the vent shaft.



Photo 8. A pile of waste material near the gate to the lined pond.



Photo 9. An overview of part of the disturbed area.



Photo 10. Another view of a portion of the disturbed area.

ATTACHMENT

Photographs

M0370043, Energy Queen Mine, Energy Fuels Resources
Inspection Dated: March 13, 2008; Report Dated: March 19, 2008



Photo 1. Road leading south to the monitoring well shown in Photo 3.



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Photo 4. Two new water monitoring wells near the vent shaft.



Photo 5. The lined pond.



Photo 6. One of the unlined ponds. Note the amount of woody vegetation.

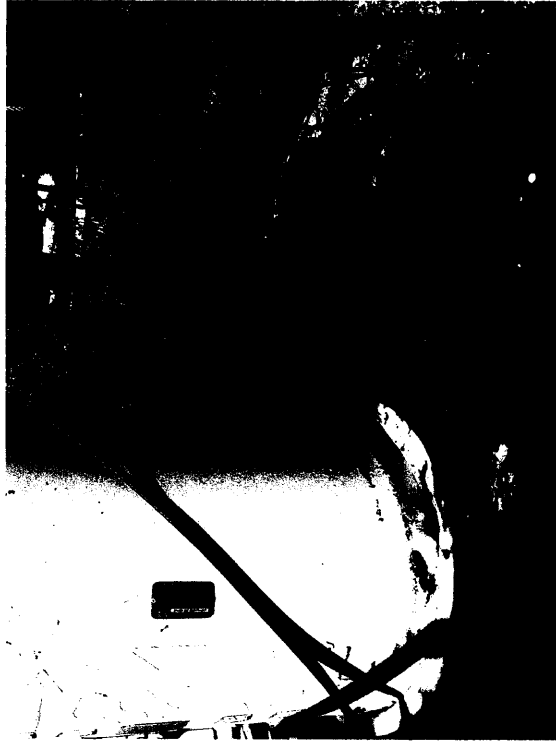


Photo 7. A hose and electrical line coming from the vent shaft.



Photo 8. A pile of waste material near the gate to the lined pond.



Photo 9. An overview of part of the disturbed area.

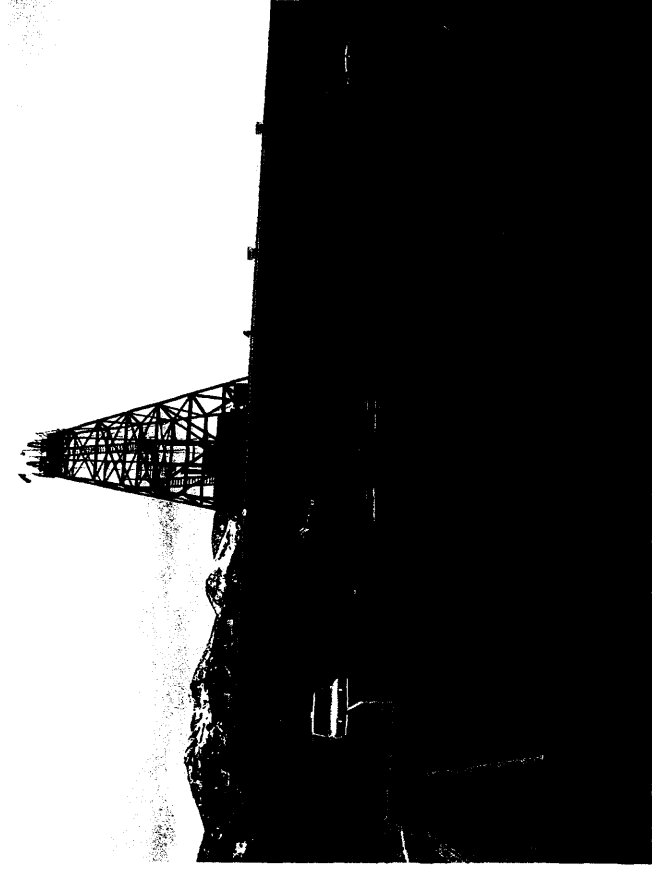


Photo 10. Another view of a portion of the disturbed area.



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JOHN R. BAZA
Division Director

Inspection Report

Supervisor SW

Minerals Regulatory Program
Date of Report: March 19, 2008

Mine Name: Energy Queen Exploration
Operator Name: Energy Fuel Resources Corporation

Permit number: E0370130
Inspection Date: March 13, 2008
Time: about 2:00-3:30 PM

Inspector(s): Paul Baker

Other Participants: I introduced myself to a person working at the adjacent mine site, but no one accompanied me on the inspection.

Mine Status: Active

Weather: Partly cloudy, 50s,
some snow in protected areas

Elements of Inspection

	Evaluated	Comment	Enforcement
1. Permits, Revisions, Transfer, Bonds	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. Public Safety (shafts, adits, trash, signs, highwalls)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Protection of Drainages / Erosion Control	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. Deleterious Material	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Roads (maintenance, surfacing, dust control, safety)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Concurrent Reclamation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Backfilling/Grading (trenches, pits, roads, highwalls, shafts, drill holes)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
8. Water Impoundments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Soils	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Revegetation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Air Quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Purpose of Inspection:

This was a routine inspection.

Inspection Summary:

1. Permits, Revisions, Transfer, Bonds

By letter dated October 24, 2007, the Division found the Notice of Intention to Conduct Exploration complete and approved the reclamation surety in the amount of \$77,580.00 for 20 drill holes. According to the minerals exploration progress report, 16 of these holes were drilled in 2007, and I found three additional holes that were marked as if they were drilled in 2008.

3. Protection of Drainages / Erosion Control

The operator used mud pits at most of the drill holes, but the pits were not large enough and overflowed at holes EQ-07-7, EQ-07-14, EQ-08-17, EQ-08-18, and EQ-08-19. Photos 4 and 5 show what happened at EQ-07-14.

7. Backfilling/Grading (trenches, pits, roads, highwalls, shafts, drill holes)

Although the minerals exploration progress report says the 16 holes drilled in 2007 were plugged, I found four holes, marked EQ-07-5, EQ-07 #12, EQ-07-13, and EQ-07-16, that had not been plugged (Photos 1, 2, 3, and 6). It took between one and three seconds for rocks dropped in these holes to hit either water or something solid. I believe I could hear running water at EQ-07-13.

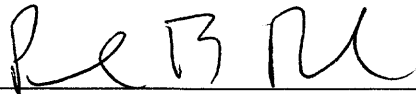
There were bags of bentonite, piles of gravel, plastic pipes, and blades for grading at various sites (Photos 7 and 8). I believe only one site, EQ-07-3, had been fully reclaimed except that I was not able to find any seed.

Conclusions and Recommendations:

Rule R647-2-108 requires that drill holes not be left unplugged more than 30 days without the Division's approval. No such approval was given, and the first 16 holes were drilled in 2007, more than 30 days before the inspection. The operator is in violation for leaving holes 5, 12, 13, and 16 open for more than 30 days, and I intend to issue a notice of violation requiring that these holes be plugged.

The minerals exploration progress report says the holes were all plugged, and this needs to be corrected. This report also needs to reference the holes as designated in the Notice of Intention or the Notice of Intention needs to be amended to show the same designation as in the report.

All of the sites need to be cleaned up, regraded and seeded as soon as possible. If they are not seeded right away, they will all be covered with Russian thistle, and revegetation will become difficult.

Inspector's Signature  Date: 3/20/08

Directions to Site:

The exploration area is immediately west of the Energy Queen Mine, formerly the Hecla Shaft.

PBB

cc: Dick White, Energy Fuels

Attachment: Photos



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Inspection Report

Supervisor SW

Minerals Regulatory Program

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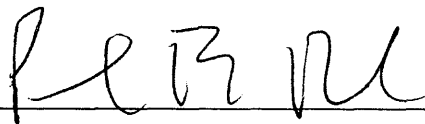
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Inspector's Signature



Date:

3/20/08

Directions to Site:

The exploration area is immediately west of the Energy Queen Mine, formerly the Hecla Shaft.

PBB

cc: Dick White, Energy Fuels

Attachment: Photos

O:\M037-SanJuan\E0370130-EnergyQueen\inspections\ins-03132008.doc

ATTACHMENT

Photographs

E0370130, Energy Queen Exploration, Energy Fuels Resources

Inspection Dated: March 13, 2008; Report Dated: March 19, 2008



Photo 1. Drill hole labeled EQ-07 #12

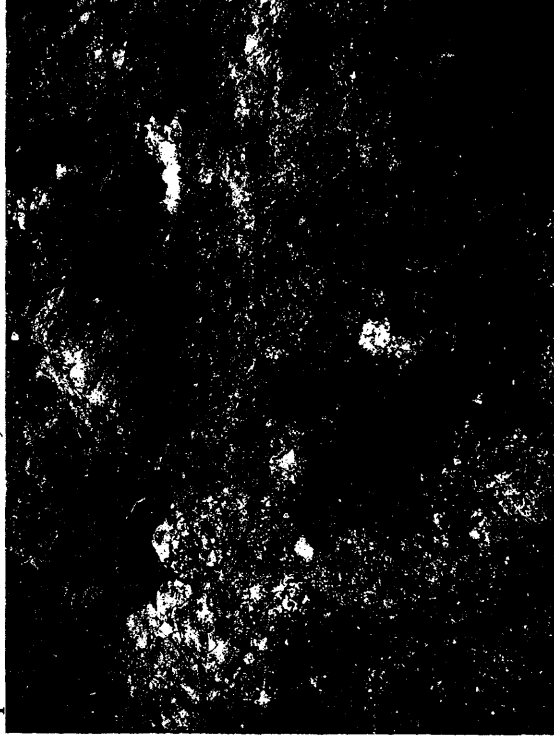


Photo 3. Drill hole EQ-07-13



Photo 2. Drill hole EQ-07-5



Photo 4. This shows where fluid left the mud pit at drill hole EQ-07-14.

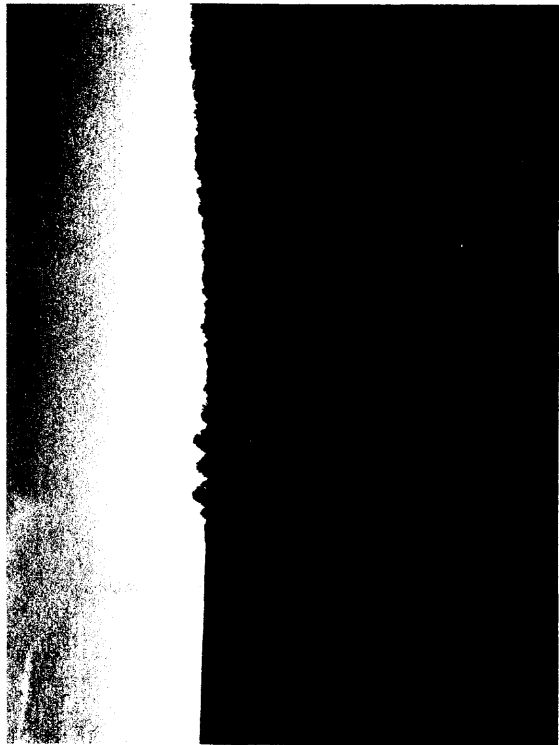


Photo 5. Another view of where fluid ran off the site at EQ-07-14.



Photo 6. Drill hole EQ-07-16.

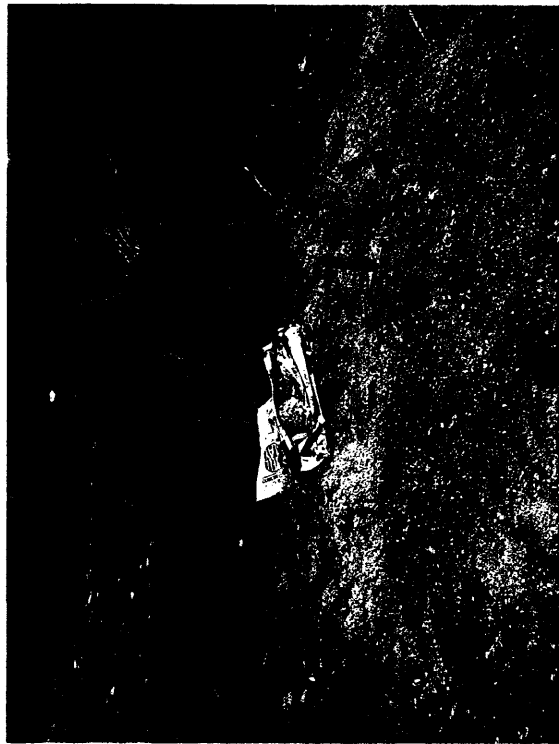


Photo 7. Empty bentonite and cement bags left at EQ-08-17.



Photo 8. EQ-07-7. Several of the holes have items that need to be cleaned up.

ATTACHMENT

Photographs

E0370130, Energy Queen Exploration, Energy Fuels Resources
Inspection Dated: March 13, 2008; Report Dated: March 19, 2008



Photo 1. Drill hole labeled EQ-07 #12

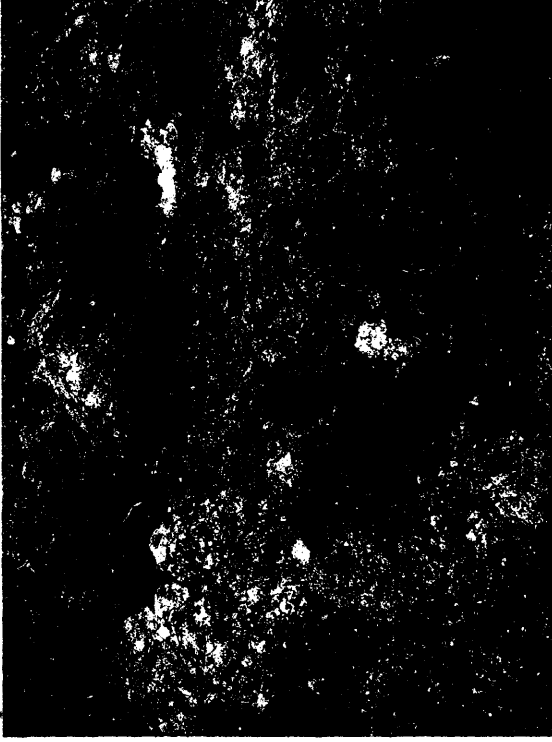


Photo 3. Drill hole EQ-07-13



Photo 2. Drill hole EQ-07-5



Photo 4. This shows where fluid left the mud pit at drill hole EQ-07-14.

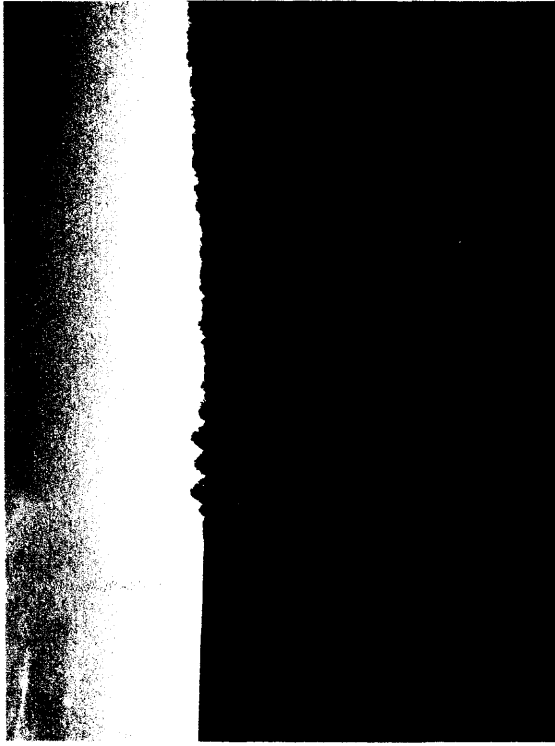


Photo 5. Another view of where fluid ran off the site at EQ-07-14.

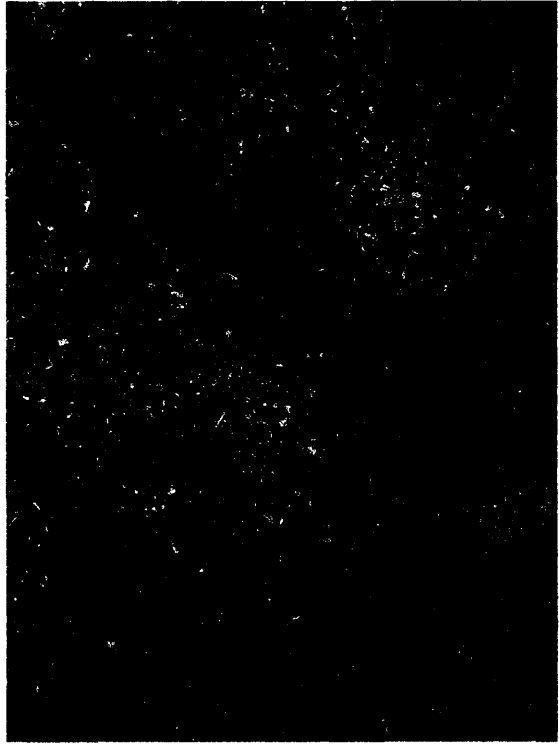


Photo 6. Drill hole EQ-07-16.



Photo 7. Empty bentonite and cement bags left at EQ-08-17.



Photo 8. EQ-07-7. Several of the holes have items that need to be cleaned up.